

ORIGINAL

DIVISION OF CONSUMER ADVOCACY
Department of Commerce and
Consumer Affairs
335 Merchant Street, Room 326
Honolulu, Hawaii 96813
Telephone: (808) 586-2800

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

PUBLIC UTILITIES
COMMISSION

2010 FEB 17 P 3:36

FILED

In the Matter of the Application of)
)
)
MOLOKAI PUBLIC UTILITIES, INC.)
)
)
For Review and Approval of Rate Increases;)
Revised Rate Schedules; and Revised Rules)

DOCKET NO. 2009-0048

DIVISION OF CONSUMER ADVOCACY'S
SUBMISSION OF REBUTTAL INFORMATION REQUESTS

Pursuant to the Stipulated Regulatory Schedule approved in Order
Approving Proposed Procedural Order, as Modified filed on November 6, 2009, the
Division of Consumer Advocacy submits its **REBUTTAL INFORMATION REQUESTS** in
the above docketed matter.

DATED: Honolulu, Hawaii, February 17, 2010.

Respectfully submitted,

By Dean Nishina
DEAN NISHINA
Executive Director

DIVISION OF CONSUMER ADVOCACY

DOCKET NO. 2009-0048

MOLOKAI PUBLIC UTILITIES, INC.

SUBMISSION OF REBUTTAL INFORMATION REQUESTS

INSTRUCTIONS

In order to expedite and facilitate the Consumer Advocate's review and analysis in the above matter, the following is requested:

1. For each response, the Company should identify the person who is responsible for preparing the response as well as the witness who will be responsible for sponsoring the response should there be an evidentiary hearing;
2. Unless otherwise specifically requested, for applicable schedules or workpapers, the Company should provide hard copies of each schedule or workpaper together with one copy of each such schedule or workpaper on electronic media in a mutually agreeable format (e.g., Excel and Quattro Pro, to name two examples); and
3. When an information request makes reference to specific documentation used by the Company to support its response, it is not intended that the response be limited to just the specific document referenced in the request. The response should include any non-privileged memoranda, internal or external studies, assumptions, Company instructions, or any other relevant authoritative source which the Company used.
4. Should the Company claim that any information is not discoverable for any reason:
 - a. State all claimed privileges and objections to disclosure;

- b. State all facts and reasons supporting each claimed privilege and objection;
- c. State under what conditions the Company is willing to permit disclosure to the Consumer Advocate (e.g., protective agreement, review at business offices, etc.); and
- d. If the Company claims that a written document or electronic file is not discoverable, besides complying with subparagraphs 4(a-c), identify each document or electronic file, or portions thereof, that the Company claims are privileged or will not be disclosed, including the title or subject matter, the date, the author(s) and the addressee(s).

DOCKET NO. 2009-0048

MOLOKAI PUBLIC UTILITIES, INC.

SUBMISSION OF REBUTTAL INFORMATION REQUESTS

CA-RIR-1

Ref: MPU-RT-100, page 2.

The Company is asserting that the appropriate benchmark is to use the currently effective rates, which include the temporary increase granted as a result of Docket No. 2008-0115.

- a. On page 9 of the Commission's Order Denying Molokai Public Utilities, Inc.'s Request To Submit Unaudited Financial Statements In Lieu Of Audited Financial Statements, filed on April 2, 2009, the Commission states that, "the rates approved by the commission in Docket No. 2008-0115 constitute a temporary stop-gap measure. Thus, MPU's utilization of the \$6.04 per TG rate as its base usage rate is misleading and improper. Accordingly, MPU's amended application, to be filed in this proceeding, shall reflect any proposed rate increases from its permanent rates approved by the commission in In re Molokai Public Util., Inc., Docket No. 02-0371 ("Docket No. 02-0371"), MPU's last rate case proceeding." Please discuss whether the Company's assertion in rebuttal testimony is consistent with the Commission's Order.

- b. Assuming that the Company contends that the Commission's Order is relevant only to the amended application and not the determination of whether a phase-in is appropriate, please provide authoritative citation to any relevant Commission Decision and Order.
- c. Please identify the lowest percentage increase, regardless of the starting point (Docket No. 02-0371 or 2008-0115), on which the Company contends that a phase-in is appropriate. Please provide copies of any appropriate analysis that supports the Company's contention regarding cash flow considerations.
- d. Please provide a description of the phase-in plan that the Company would support in conjunction with the Company's revised revenue requirement associated with the Company's rebuttal testimony. Please include a copy of any analysis already performed by the Company on bill impact on the various customer classes.

CA-RIR-2

Ref: MPU-RT-100, pages 6 - 9.

- a. Please discuss whether the Company has any studies, reports or analyses that would support the contention that its current compensation and benefits package is inadequate in comparison to other Hawaii small utility companies. If so,

please provide a copy of the applicable study, report, or analysis.

- b. Please identify any other Hawaii utility company that provides almost complete coverage of all medical and dental plan expenses.
- c. Without any showing by the Company to justify that its level of compensation, both pay and benefits, are inadequate, please explain why the Commission should allow the current level of the existing benefits coverage to continue beyond the instant rate proceeding.

CA-RIR-3

Ref: MPU-RT-100, pages 14 - 20.

The Company acknowledges that the issue of lost and unaccounted for water was settled in Docket No. 02-0371. Thus, the Company contends that there was no finding of the reasonable level of unaccounted for water for the Company.

- a. Notwithstanding the fact that the Commission did not make a “finding” on the reasonable level of unaccounted for water for the Company in Docket No. 02-0371, please confirm that the Commission: 1) adopted the settled upon amount of 15%, which was an overall number without any of the various adjustments that the Company is proposing in the instant proceeding; 2) the Commission expressed sufficient

concerns with the water loss situation to warrant the requirement of quarterly reports on the status of the facilities upgrades that were intended to reduce the water loss; and 3) reporting on any other measures to reduce water loss.

- b. Please confirm that, while the Company may need to contractually "leave" water under the MIS operating agreement and additional water may be required as part of the backwash process, the Company understands that the Consumer Advocate's position that the use of the MIS results in wasted water and inefficient operations since well water is being mixed with irrigation water and then treated again.
- c. Please provide any authoritative citations that would support the overall difference in the water pumped and the water delivered as being reasonable and/or acceptable based on other recent decisions and orders by this Commission.
- d. Please identify all other plant improvements and/or measures identified and considered by the Company in order to address the water loss situation.
 - 1. For each of the identified plant items or measures, please provide the following:
 - (a) Description of the item including its function and how it would decrease the water loss both

in terms of quantification and manner of how the water loss is achieved;

- (b) Provide an estimate of the cost to construct, procure or implement the item or measure;
- (c) Reasons why the item or measure has not already been implemented.

- 2. If the Company has not identified any other plant item or measure that could reduce or eliminate the historical water losses, including those associated with the MIS and the backwash process, please explain why not.

CA-RIR-4

Ref: MPU-RT-100, pages 14 – 20.

In Docket No. 02-0371, the Company asserted that it was going to build new transmission lines and/or facilities to address the issue of water loss. For example, see the discussion in the Stipulation of Settlement Agreement in Lieu of Evidentiary Hearing filed on May 23, 2003 in Docket No. 02-0371, page 11.

- a. Please discuss whether the Company was intending to follow a more comprehensive plan and/or install additional plant facilities to address the water loss issue or whether its intent was to install plant facilities to only reduce the water

loss to an overall factor of 27.1% as shown on MPU-R-6 in the instant proceeding.

- b. If the Company did not anticipate eliminating the backwash and MIS requirements as a result of its new transmission facilities, please discuss and quantify the projected decrease in the water loss that the Company anticipated at the time of its investment decision. Please provide copies of any reports, studies, and/or analyses that the Company had conducted to justify the plant investment decisions.

CA-RIR-5

Ref: MPU-RT-100, pages 27 – 32.

- a. The Company contends that “the Consumer Advocate’s information requests seemed to be higher than the other cases.” (emphasis added)
 - 1. Did the Company perform any analysis to arrive at this conclusion?
 - 2. If so, please identify the other cases considered and provide a copy of that analysis.
- b. Please identify the hours recorded by the Company’s regulatory and legal outside services vendors for the discovery phase. In addition, assuming that the detail is available, please further provide a descriptive classification for the hours incurred separately by the legal and regulatory

vendors by function, such as drafting responses, conducting analyses, researching, reviewing drafts, etc.

CA-RIR-6

Ref: MPU-RT-100, page 33.

The Company acknowledges that the Consumer Advocate contends that certain portions of plant might be excess capacity, but indicates that there is no assertion that the plant is not used or useful in providing service to customers.

- a. Please discuss whether it is the Company's understanding that the Commission's standard is whether plant is "used and useful" or "used or useful." Please provide any authoritative citations.
- b. Is it the Company's assertion that all of the plant currently existing is necessary to serve the currently existing customer base?
 1. If so, please confirm that there is no additional capacity in the existing plant to serve any future incremental or additional demand. Please provide a copy of the report or analysis that supports the Company's response.
 2. If the Company is asserting that there is no additional available capacity, please discuss how the Company plans to serve any future additional load.

- c. If it is the Company's assertion that there is capacity that could be used to serve future loads, but, rather than recovering the costs for that capacity from those future customers, the Company is recommending that the existing customers should be required to pay for capacity unrelated to their demands, please provide any authoritative citations that explicitly supports the conclusion that such an expectation is reasonable.
1. If the Company acknowledges that there is existing capacity that was used to previously serve customer demand but is now available, please identify that existing capacity and provide a copy of any analysis or study that supports the Company's response.
 2. If not already provided, please provide the following:
 - (a) Total plant capacity, both peak and average.
If this information is available by major plant function, such detail would be preferable.
 - (b) Recorded monthly peak usage for each of the past three years. If this information is available by major plant function, such detail would be preferable.

- (c) Recorded monthly peak and average usage by customer class and meter size for each of the past three years.
 - (d) Industry standard values for the expected average and peak usage per type of customer in the Company's service territory.
- d. Please confirm that requiring the existing customer base to *pay for all fixed and variable costs will result in a higher utility rate* for the remaining customers as compared to the costs that are attributable to those customers. If the Company disagrees, please provide a copy of the analysis or study that supports the Company's position.
- e. *If the Company agrees that utility rates designed to recover fully embedded costs from the remaining customer base will be higher because the remaining customers are being burdened with all fixed and variable costs, even those not attributable to capacity required by the existing customer base, does the Company also agree that the higher rates might cause one or more of the following:*
 - 1. Customers leave the system due to excessive utility rates;
 - 2. Greater levels of uncollectible expense or bad debts on a short and/or long term basis; or

3. Customers will be required to modify their lifestyles to allocate a greater portion of their monthly income towards water utility bills.
- f. Assuming that the Company agrees with any of the three possible conditions that might occur, please describe what, if any, solutions the Company would propose to mitigate the adverse impacts on its customers.

CA-RIR-7

Ref: MPUT-RT-100, pages 44 – 45.

The Company indicates that a time and motion study is not needed.

- a. Given the recent procedural and accounting changes and the significant effects it had on the recorded utility expenses, what evidence can the Company provide to support the contention that all recorded costs are: 1) correctly attributable to the utility company; and 2) reflects a reasonable amount of time associated with the various labor hours associated with the tasks required to operate and maintain the Company's facilities? Please provide copies of any relevant documents that support the Company's assertions.
- b. If the Company cannot provide substantive evidence regarding the reasonableness of the time and expenses that are being recorded by the Companies and a time and motion

study is not appropriate or required, please identify the means by which the Company could meet its burden of proof if the Commission was inclined to investigate this matter.

- c. Assuming that the Company contends that the audit of its financial statements performed by KPMG LLC provides some support that could be used by the Commission, please provide a copy of the engagement letter and/or any other communications between the Company and KPMG that clearly indicates that KPMG was tasked to evaluate and test whether the reported time and expenses are correctly recorded and attributable to the utility company as well as evaluating the reasonableness of the time spent on various tasks.

CA-RIR-8

Ref: MPU-RT-100, pages 9 – 16.

- a. The Company is contending that a 3-year average for electricity price per kwh should be used if the requested adjustment clause is not approved by the Commission. Please provide a copy of the analysis performed by the Company to support its assertion regarding the reasonableness of the three-year average.
- b. If not already addressed in its response to part a., please provide a copy of the Company's assessment of each of the

years used in its averaging process to assess whether those years are representative of normalized levels or whether those values might be too high or low for purposes of developing a normalized value.

- c. The Company provided a discussion of how a 3-year average should be used for fuel, but indicates that the price used by the Consumer Advocate is reasonable. Please provide a copy of the analysis to support the Company's assertion.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S SUBMISSION OF REBUTTAL INFORMATION REQUESTS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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DATED: Honolulu, Hawaii, February 17, 2010.

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